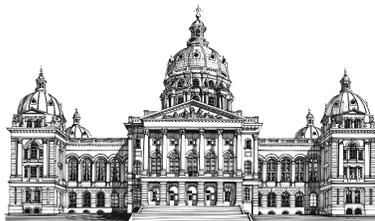

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
December 8, 1992

Regent Affiliated Organizations Part II

ISSUE

Additional information regarding the mission, equity, assets, revenues, and expenditures relating to the foundations and other organizations affiliated with the State Board of Regents.

AFFECTED AGENCIES

The 3 institutions of higher education under the control of the State Board of Regents.

University of Iowa (SUI)

Iowa State University (ISU)

University of Northern Iowa (UNI)

CODE AUTHORITY

Section 262.9(7), Code of Iowa.

BACKGROUND

Background of affiliated organizations of the Board of Regents was provided for the November 1992 meeting of the Legislative Fiscal Committee. Additional information has been received as a result of questions asked by members.

SPECIFIC FOLLOW-UP REQUESTS

1. Explain the relationship of indirect cost reimbursements and the affiliated organizations.

Since the contract is between the grantor and the institution itself, an affiliated organization does not receive revenue from indirect cost reimbursement. This reimbursement is the portion of the grant which is received for costs such as utilities, administration, and maintenance at the institution. Therefore, in the

case of the FAX patent, the student who developed the technology that allowed the transmission of electronic information under the National Science Foundation fellowship was an employee of ISU.

2. Delineate the proposed distribution of the proceeds from the FAX patent revenue.

The disbursement of the estimated \$28 million is estimated as follows:

| | | |
|---|-------|-------------------|
| Direct costs: (Legal Fees and other costs) | 43.0% | 12,040,000 |
| Foundation Operational Fee | 15.0% | <u>4,200,000</u> |
| Net income remaining | | <u>11,760,000</u> |
| | | |
| Inventory share of Net | 33.0% | 3,880,800 |
| College share of Net (College of Engineering) | 33.0% | 3,880,800 |
| ISU share of Net | 33.0% | 3,880,800 |

3. Delineate the proposed distribution of ISU's portion of the proceeds of the FAX patent revenue.

ISU plans to expend the Institution's share (\$3.9 million) of the FAX patent income on protecting other ISU intellectual property and technology transfer initiatives at ISU.

4. Delineate the proposed expenditures of the proceeds from the sale of WOI-TV.

Information regarding planned expenditures of the net profit from the sale of WOI-TV was provided prior to the legal action currently underway. The information indicated that the proceeds would be used to establish a trust fund, which would create an endowment to fund programs in Biotechnology, Electronic Media Studies, Distant Learning and Technology Transfer Initiatives, the Center for Teaching Excellence, and Student Scholarships. Legal costs related to the sale of WOI-TV through October 25, 1992 were \$513,700.

GOVERNANCE ISSUES

The issue of ownership of the generated funds and appropriate expenditures or investments of the generated funds by the institution or controlling board of directors of an affiliated organization continues. Although the institutions may indicate the planned investment and expenditure of funds, only the controlling board of directors determines whether the plans are to be implemented and there is currently no recourse in the event funds are not invested or expended as planned.

The second issue would be the transfer of ownership of property, such as WOI-TV, and various patents, such as the FAX patent, from an institution to a private foundation or other affiliated organization directly related to an institution of higher education under the Board of Regents. Although the Board of Regents may argue that an affiliated organization may pursue legal action and receive the proceeds of such legal action or patent proceeds on behalf of an institution, nothing would preclude the institution from performing such action on its own behalf.

STAFF CONTACT: Sue Lerdal (Ext. 17794)



Marvin A. Pomerantz, *President, Des Moines*
Marvin S. Berenstein, *Sioux City*
Thomas C. Dorr, *Marcus*
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State Board of Regents

DES MOINES, IOWA 50319

OLD HISTORICAL BUILDING

Telephone (515) 281-3934

R. WAYNE RICHEY, *Executive Director*

December 3, 1992

Mr. Tim Faller
Legislative Fiscal Bureau
State Capitol
L O C A L

Dear Tim:

By memorandum of November 13, 1992, you asked a series of questions regarding the affiliated organizations of the institutions under the control of the Board of Regents. The first four questions referred specifically to Iowa State University and are answered in the enclosed letter from Dr. Patricia Swan, Vice President for Research at Iowa State University.

Your last question related to the amount of indirect reimbursable cost income received by any affiliated organization in fiscal year 1991 at any of the three Regent universities. None of the affiliated organizations of the three universities received indirect cost income in fiscal year 1991. It is doubtful that they have ever received any, because most of the projects are directly with the universities rather than an affiliated organization.

The income received by the Iowa State University Research Foundation is extraordinarily important in financing the technology transfer activities of the university. In addition to the royalties received or to be received from the fax patent, Iowa State University has patented animal vaccines, new plant varieties and other discoveries that are very important to Iowa industry. The procedures for these activities have been in place, as you will note, at Iowa State University for more than half a century.

Personnel from the Regent universities will be at the meeting of the Legislative Fiscal Committee on the afternoon of December 16 to assist the committee in discussion of this issue. I will be unable to attend the meeting because of the meeting of the Board of Regents that will be occurring at the same time in Ames. Please let me know if we can be of further assistance to you and the committee on this or other issues.

Sincerely,


R. Wayne Richey

jck/ED45/Faller
Enclosure

IOWA STATE UNIVERSITY
OF SCIENCE AND TECHNOLOGY

Research and Advanced Studies
Office of the Vice Provost
311 Beardshear Hall
Ames, Iowa 50011-3020
515 294-6344

December 2, 1992

R. Wayne Richey
Executive Director
Board of Regents Office
Old Historical Building
East 12th and Grand Avenue
Des Moines, IA 50319

Dear Wayne:

The purpose of this letter is to answer the questions posed to you by Mr. Faller on behalf of the Legislative Fiscal Committee regarding the Iowa State University Research Foundation and the fax patent.

The Iowa State University Research Foundation (ISURF) was founded in 1938 to manage the intellectual property of the university. Intellectual property of the university includes patents, licenses for their use, and copyrights. ISURF also manages university trademarks. Administrative support to ISURF is provided through the Office of Intellectual Property and Technology Transfer which reports to me as Vice Provost for Research and Advanced Studies and Dean of the Graduate College. ISURF is the vehicle by which Iowa State University transfers its technology to the commercial marketplace through licenses to use a product or process which has been patented.

Revenue derived from licenses, after direct expenses and a 15% operational fee are deducted, is distributed in the following manner: one-third to the inventor, one-third to the college home of the inventor and one-third to the university for specific research or technology transfer projects. The cost of filing a patent has ranged from \$10,000 to \$50,000 with an average of about \$15,000 to \$20,000 per patent and we have sought patents on approximately 40 to 50 discoveries per year during recent years. We are contractually obliged to keep all matters relating to the granting of an individual license confidential unless the specific company in question gives us permission to do otherwise.

In the specific case of the fax patent, as you know, the ISURF Board made a decision to aggressively protect our patent through a series of actions that included willingness to go to court to do so.

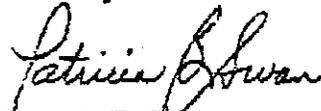
R. Wayne Richey
December 2, 1992
Page 2

Mr. Nicholas was a graduate student at ISU in 1971 and was supported by a National Science Foundation fellowship. In the course of doing his thesis, he developed the technology that allowed the transmission of electronic information serially and in real time. This development was crucial to the development of the facsimile machine. As was the routine practice, his major professor took him to ISURF to begin the patent process. His rights (under Iowa law) to the discovery were transferred to ISURF and ISURF, in turn, entered into an agreement with him to pay the costs of securing the patent and sharing any subsequent income with him as described above. The patent was issued to ISURF in 1973. In 1986 Mr. Nicholas notified ISURF that he believed patent infringement was occurring by a number of companies. ISURF began the actions described earlier to protect its patent. To date, companies have paid or agreed to pay licensing fees in the amount of \$18 million. Direct costs, including substantial legal fees to date are approximately 43%. Distribution of net income will be as described above for any revenue accruing to ISURF. Any further payments from additional companies would be as a result of legal actions.

No affiliated organization at ISU receives any indirect reimbursable cost income.

If Mr. Faller has additional questions, I would be happy to talk with him, respond in writing or attend any committee meeting where these matters may be discussed.

Sincerely



Patricia B. Swan
Vice Provost for Research

PBS/gs

cc: Carol Bradley